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Abstract

This paper looks at finance teams with effective working capital management practices. Finance teams with effective working capital management practices can help ease the strain on pharmaceutical companies caused by declining sales, pricing pressures, and long product lead times. Finance teams equipped with the right reporting and analysis tools can further the goal of cost reduction by improving their companies’ accounts payable position with better supplier management and reduced supply chain costs. With easy access to the right data, they can also optimize accounts receivables by monitoring customer invoice aging. Extending this to integrated planning enables accurate, effective budgeting and forecasting, which helps improve cash flow management. Large pharmaceutical companies have extensive supply chains scattered across the globe. Many of their suppliers are small to medium-sized enterprises facing their own working capital and cash flow challenges. Margin improvements can result from collaborating with suppliers to provide early payment programs and strengthen the buyer-supplier relationship. Finance teams need analytic tools to identify which suppliers to target with payment options in order to maximize benefits.

IT Industry Outlook 2020 provides insight into the trends shaping the industry, its workforce, and its business models. Because trends do not occur in a vacuum, the report provides context through market sizing, workforce sizing, and other references to supporting data. The interrelated nature of technology – where elements of infrastructure, software, data and services Pharmaceutical stocks are widely regarded for their huge potential and tech companies driven by IT with their weighted risk analysis. Pharmaceutical companies are facing congressional and regulatory pressure to cut costs and lower prices, while also struggling with dwindling innovation models and decreased profitability. They face radical healthcare reforms that affect drug trials, sales, pricing, and manufacturing. Improving cash flow management can ease these pressures and support innovation, leading to sustained profits. Working capital reflects the amount of cash a company has tied up from production costs to when it ultimately receives payment from customers. The pharmaceutical industry has historically had weaker working-capital performance comparative to other industries. This is due to the lengthy and expensive lead time from research and development through testing and regulatory approval to the sale of products. The pharmaceutical industry is a capital intensive, high risk industry characterized by big upfront costs and a lengthy wait to see a financial return, and that assumes that the new product is approved at all. Some together, means trends tend to unfold in a step-like manner.

Key words: IT Industry, Finance, pharma, software, systems, accurate budgeting, planning
Introduction

Pharmaceutical companies are large, complex organizations made up of multiple operating entities, trading in various currencies, and falling across numerous jurisdictions. Gathering data across those entities’ disparate systems and correlating this into effective reports poses a real challenge for finance teams. Yet this is crucial for accurate budgeting and planning. Finance needs tools to synthesize trends and market movements, anticipate competitive actions, and plan accordingly. This requires effective budgeting and planning tools that make it easy to collect and aggregate local data into an overall plan. The tools need to support integrated planning by enabling each business area to create its own plan, which rolls up into an overarching model.

With this level of flexibility, pharmaceutical companies are able to move to a continuous planning process which can help reduce days inventory outstanding and improve working capital. More importantly, there are big positive developments that have also happened for the sector. It is more coming from the fact that a lot of FDA-related issues have slowed down. We are now seeing product approvals coming through and we have seen domestic business at least continuing in line. You may have one or two months of difficulty but directionally, the domestic market volume growth and value growth is likely to continue over the next 50 years and for most cases we have got positive support. Based on the portfolio weight, the technology sector was ranked second in July compared with fourth in the earlier months. Private banks continued to top the ranking. Despite this, local fund managers were still underweight on the tech sector by about 300 basis points in comparison with the sector’s weight of 13.5% in the BSE 200 index. Of the total 20 funds, only two -- Axis and UTI -- were overweight on the sector. The Nasdaq, which gets about 40% of its value from just six technology stocks, just closed out its first two-week losing streak since the period ended May 1. The index dropped 1.3% in the past five trading days, led by a 16% plunge in Intel shares and a 5.6% decline in Tesla.

It’s only a minor pullback given the Nasdaq’s strength, especially in the face of a global pandemic and surging unemployment. The Nasdaq is up 16% for the year and remains only 3.8% off its all-time high. It’s more than doubled over the past five years, outperforming the S&P 500's 55% gain. Tesla, whose shares are still up about 240% this year, dropped for the week even after the electric carmaker reported a fourth straight quarterly profit.

Driven in part by Tesla’s massive rally, the Nasdaq recently reached its highest price-to-earnings ratio since 2005, according to FactSet. Meanwhile, initial jobless claims topped 1 million for an 18th straight week, and states are poised to stop paying out the $600 per week enhanced federal unemployment benefit at the end of July. Coronavirus cases in a number of U.S. states continue to reach daily records.

Objective:

This paper intends to explore pharma stocks and IT, technology services compounding returns focusing on risk analysis respective fields

Mutual funds and tech and pharmacy companies

Most investors aim at generating maximum returns and with this mindset they tend to ignore the disclaimer which Mutual funds highlight ‘Mutual funds are subject to market risk. Read the offer document carefully before investing’. This is a behavioural anomaly among investors which shows that investors don’t understand the risk return relationship. They have a tendency to run towards return, without considering risk. Yes, this is true! Generally it is said that people are risk averse, but it would be more apt
to say that they are more inclined towards return. This can be seen in the behaviour of people investing more in stocks when the market is moving higher and staying away when it is down. The basic risk in equity has always remained same, but in both the cases the target is to get more returns. This can also be related to the preference for instant gratification.

One should accept the volatility risk while looking for good returns and select mutual funds after having a balanced view on both the parameters. In fact it is also good to have a clear idea of one’s own personal risk profile, which also helps in zeroing in on a suitable product. Checking returns is quite easy as they are available easily through various resources. For measuring risk associated with the product there are various ratios which one may look at before selecting a mutual fund. Do note that these ratios will depict nothing in isolation unless they are compared with the similar funds.

**Equity Mutual funds:**

In equity mutual funds, risk gets measured with standard deviation and beta. Let’s understand these two parameters in detail.

**Standard Deviation:** This measure tells how much the return of a particular fund deviates from its average return or mean. These deviations show how volatile the fund is. In simple terms higher the standard deviation, higher will be the risk. For example a fund with standard deviation of 10%, will have a tendency to deviate 10% from its average return. Following are the standard deviation figures of three pure large cap funds (as on 9th July’13):

<table>
<thead>
<tr>
<th>Funds</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>DSP Blackrock Top 100</td>
<td>17.12</td>
</tr>
<tr>
<td>ICICI Prudential Focussed Bluechip Equity</td>
<td>16.8</td>
</tr>
<tr>
<td>Franklin India Bluechip</td>
<td>15.7</td>
</tr>
</tbody>
</table>

A risk profile is one of the most important things to analyse before making an investment. Ideally, experienced investors would know their risk ability, but a newbie would have a very little idea about the risk involved with Mutual Funds or the right mutual fund as per their risk appetite.

In many certains, most of the investors were overconfident at the time of Investing and they turn extremely nervous as the market becomes volatile. Hence, knowing your risk profile remains at the center stage of any investment. Especially in the case of mutual fund investment, the suitability of a product largely depends upon the characteristics of the investor. Investors should know their investment objective, how long they wish to invest, ability to tolerate risk, minimum investment amount, etc.
Risk Identification and Risk Analysis

Once the risk is identified by the risk assessment procedure, that risk is then analysed. It is divided into three broad categories -

Risk Capacity

Risk capacity is the quantitative measure of taking a risk. It maps your current and future financial position which includes factors like income, savings, expenses, and liabilities. With these factors evaluated, the rate of returns required to reach your Financial goals is determined. In simple words, it is the level of the financial risk you can think of affording.

Risk Required

Risk required is determined by your risk capacity. It is the risk associated with the returns needed to reach your financial targets with available resources. Risk required educates you about what you could potentially be taking on with a certain investment. It gives you an honest perception and a clear picture about the type of the risk you are about to take.

Risk Tolerance

Risk tolerance is the level of risk you are comfortable with. It is simply your willingness to accept the fluctuations in the market that may or may not occur in order to achieve your financial objectives. Risk tolerance can be broadly divided three types

1. **High-Risk Tolerance**

2. **Mid-Risk Tolerance**

3. **Low-Risk Tolerance**
A/R Management

Receiving payment for goods or services in a timely manner is key to optimizing cash flow management. Managing global payment terms and customer receipt delays is challenging for finance teams, especially when dealing with multiple currencies and jurisdictions. Strategies to ensure accounts receivables month-end goals are realized include negotiated arrangements and invoice discounting for early payment. In order to do this effectively, finance needs real-time access to accurate data and ad hoc reporting to determine which accounts to target for negotiation of payment terms or discounting. The right data analysis tools can give finance more control over their accounts receivables and result in enhanced cash flow for the organization.

Pharmaceutical companies face many challenges, including high capital expenditures, long time spans between research and delivery to market, accurate pricing models, and the ability to handle high levels of debt and profitability. The power to effectively manage cash flow is crucial to success in this industry and can be achieved by finance teams if armed with the right data analysis and reporting tools. Finance can simplify the budgeting and planning process with a solution that integrates across all the major ERPs.

The pharmaceutical industry is under continuous pressure to discover and develop new drugs targeted toward increasingly complex diseases, which means the industry must use innovative technologies that will help them ramp up research and development, manufacturing and analytical capabilities while enabling them to be competitive and compliant.

Over the past few years, regulatory authorities such as Medicines and Healthcare products Regulatory Agency (MHRA) and The Food and Drug Administration (FDA or USFDA) have intensified the need for Pharma manufacturers outside the U.S. to ensure 100% compliance to Good Laboratory and Good Manufacturing practices at their EU or US export plants. Non-compliance to these regulations has resulted in warning letters to some of the leading Pharma companies, which has impacted brand image and revenues.

One of the critical areas of focus has been “Data Integrity” that Pharma companies have adopted integrated informatics platforms for including Chromeleon Chromatography data software’s (CDS) which have helped them comply with regulatory needs and increase lab productivity. Facing constant pressure to decrease costs while optimizing efficiency, pharmaceutical companies and contract research organizations (CROs) have adopted Watson Laboratory Information Management System (LIMS) automation solutions because they meet the specific needs of a broad range of studies performed in their labs.

Researchers looking to simplify compound identification, quantitation and complex data analysis now have access to a wide range of software and cloud solutions designed to allow them to analyze, share and discover unique insights in several Pharma and drug discovery applications. As domestic and global Pharma multinational corporation (MNC’s) increasingly collaborate with research institutes and start-ups to develop solutions in new drug delivery systems and targeted therapies, innovation in technology and laboratories using a Cloud platform are strengthening the way. Researchers and scientists are now able to connect, collect, upload, store, share and analyze data securely and remotely.

Automation use of robots tech and pharma

Another area of increasing use of automation is the use of robots to move biological or chemical samples around to synthesize chemistries or to test pharmaceutical value of existing molecules. Laboratory processes are well suited for robotic automation as the processes are composed of repetitive movements and demand precision. Automation is also seeing growing usage in working environments which involve handling of hazardous compounds. With support from technologically advanced and innovative partners, the Pharma industry can shift gears and boost their efficiency and productivity throughout product life cycle.
At the production and packaging level, Pharma companies are leveraging advanced technologies and automation to address challenges such as sample under fill and overfill, detect metal contaminants and other dense foreign objects on the production line. Such solutions help them address the above issues on a running batch, thus reducing their downtime and help protect their brand image.

We live in an age in which technology is moving at a rapid pace, creating new fields and disrupting existing models and processes, and Pharmaceutical industry is no stranger to this. Increasing use of innovative solutions and automation will drive the future of this industry and help to accelerate discovery, enhance productivity and enable regulatory compliance.

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cloud solutions to technology

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Conclusion

A more-than-healthy economy of the last several years has resulted in a low unemployment rate and created an employees’ market – for now. That, coupled with the introduction of new technologies that require a more sophisticated level of skill, has spun up a bit of a perfect storm on the workforce front for the channel. Six in 10 channel firms say their hiring difficulties stem from having to compete heavily with other technology outfits for talent. Four in 10 are competing with organizations outside the tech industry for technology talent, which speaks to the widely held belief that every company today, regardless of industry, is a tech firm. Additionally, channel firms today are making larger investments in marketing as they become more services-oriented in nature and rely less on hitching their brand to that of the vendors they sell. This is new territory for many smaller firms, in particular, that have never had devoted marketing headcount. Now they are looking. At the production and packaging level, Pharma companies are leveraging advanced technologies and automation to address challenges such as sample under fill and overfill, detect metal contaminants and other dense foreign objects on the production line. Such solutions help them address the above issues on a running batch, thus reducing their downtime and help protect their brand image.

And some are getting creative in how they hire by casting a wider net. For example, 3 in 10 channel firms of all sizes are eliminating a four-year college degree requirement for job candidates. That mirrors a trend that has been happening at the larger IT vendor level (think Google, Apple, or IBM) for some time now.

References

5. Lenin n.d.